MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM 2215)

DAU5014 – AUDITING 1

(All sections/Groups)

21 DECEMBER 2022
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

PART A

Hubayb is a first-year student who has just enrolled in accounting courses at one of the top universities in Australia. During the orientation week, he learned from the third-year students that accounting courses could lead him to be an accountant and auditor. Hubayb understands who an accountant is. However, he was unsure of the auditor's duties and responsibilities. The followings are some parts of the conversation between Hubayb and his seniors.

Hubayb	Hi ! I am Hubayb. I am interested to know who auditor is. Can you explain more?
Senior 1	My pleasure Hubayb. Auditor's responsibility is to express an opinion as to whether the financial statements give a true and fair view of the company operation.
Hubayb	Ok. I thought an accountant is knowledgeable about the preparation of financial statements. Why there is a need for an audit?
Senior 2	Yes, I agree with you. Accountants who are part of management prepare financial statements. Nevertheless, the demand for financial statement audits happens because of the principal and agent relationship. The separation of functions between the principal and agent raises the need for monitoring functions in the company. Factors such as information asymmetry and conflict of interest in this relationship cause the principal to doubt the company's financial statement. As a result, the agent may not act in the principal's best interest.
Senior 1	The auditor will gather and evaluate audit evidence to reach conclusions on the truth and fairness of the account. They are registered and licensed by the Malaysian Institute of Accountants (MIA) in Malaysia.
Hubayb	Oh! I got it. In this situation, financial statements will be more credible when there is an independent party perform the verifications of the company's account.
Senior 1	Hey ! You are brilliant, Hubayb. I am sure you are going to enjoy your class here.
Hubayb	Thank you. I can't wait for the class to start to know more about this.

Continued...

Required

(a) Define the terms below:

1. Principal
2. Agent
3. Information Asymmetry
4. Conflict of interest

(8 marks)

(b) Elaborate **TWO (2)** management duties besides preparing financial statements as mentioned by Senior (2) in the conversation above.

(4 marks)

(c) Explain the role of Malaysian Institute of Accountants (MIA).

(2 marks)

(d) Based on the conversation above, what types of audit does the senior refer to? What are other types of audits that an auditor can conduct?

(4 marks)

PART B

A publicly listed company must appoint an auditor by the procedures outlined in the Companies Act 2016. If a person meets specific disqualification criteria outlined in the Companies Act 2016, he may be barred from becoming a company auditor.

Required

According to the Companies Act 2016, what are the procedures for removing an auditor for a public listed company?

(7 marks)

(Total: 25 marks)

Continued...

QUESTION 2

PART A

Lourdes & Co has recently been appointed as auditor of SP Manufacturing Berhad, a company that specialises in making computers. Five audit team members are involved in the audit assignment: Keith, Cloe, Rafis, Lyn and Joe. Cloe will be assisting Joe in the development of the audit plan. Rafis is responsible for ensuring that all the audit team members assigned are knowledgeable, skillful and experienced in managing the audit process. Keith will be meeting with the company's finance director to discuss the audit engagement that will take place in March 2023. Then, Lyn will work on preparing the audit working paper for the financial statement audit for the year ended 31 December 2022.

Required

(a) Identify the position held by Keith, Cloe, Rafis, Lyn and Joe in the audit engagement for SP Manufacturing Berhad.

(5 marks)

(b) Explain another **TWO (2)** responsibilities of Keith and Rafis during the financial statement audit at SP Manufacturing Berhad.

(4 marks)

(c) What is the first step the audit team members shall conduct in the audit process? Explain your answer.

(3 marks)

(d) Assume that SP Manufacturing Berhad was your audit client in 2021. What are the matter you will consider upon accepting the audit engagement in 2022? Why?

(3 marks)

PART B

Company	Audit findings
Company A	The auditors found that the financial statements are in accordance to approved accounting standards and free of material misstatements.
Company B	The auditors conclude that there is a departure from approved accounting standards. However, the financial statements are true and fair view.
Company C	The auditors agree that there are highly material misstatements in the financial statement due to the inability of the auditors to gather significant and appropriate audit evidence regarding account receivables.
	There is a disagreement between the auditor and the audit client on the method of accounting application in the financial

Continued...

Company D	statements. The amount of misstatements are significantly material.
Company E	There are material misstatements in reaching the relevant and reliable evidence regarding the non-current assets declared in the financial statements of the company.

Figure 1

You are one of the auditors working in Jemilah & Co and currently auditing financial statements for various companies in the Northern part of peninsular Malaysia. **Figure 1** shows the audit findings for five companies.

Required

(a) Identify the type of audit report you would issue for the five companies in **Figure 1**.

(Note: Use the table format below to write your answers)

No	Type of Audit Report
1.	
2.	
3.	
4.	
5.	

(5 marks)

(b) Provide **TWO (2)** possible reasons behind the audit findings for Company C.

(4 marks)

(c) How many basic elements should the auditor provides in the standard unmodified audit report?

(1 mark)

(Total: 25 marks)

Continued...

QUESTION 3

PART A

You are the auditor in charge of the audit of Aestro Berhad, a construction company. As the senior auditor in charge, you need assurance of the reliability of the data prepared by the company's information system. **Figure 2** below displays the components of internal control that your audit team members will test.

- The control environment
- The company's risk assessment process
- The information system and related business process
- Monitoring of internal control

Figure 2

Required

(a) Describe **FOUR (4)** objectives of internal controls that are implemented by a company's management.

(8 marks)

(b) List **TWO (2)** risk assessment procedures an auditor can conduct to understand the company's internal control.

(2 marks)

(c) Based on **Figure (2)**, identify and explain other components of internal control that an auditor may test. Provide **THREE (3)** examples for your answer.

(9 marks)

PART B

You are appointed to audit the financial statements of Rocket High Berhad, a company which manufactures fabrics. Your audit partner has reminded team members to gather and evaluate audit evidence to draw conclusions in the audit report.

Required

(a) Explain the definition of audit evidence. Provide **THREE (3)** examples of audit evidence.

(4 marks)

(b) List **TWO (2)** criteria of audit evidence criteria that an auditor needs to observe before drawing conclusions in the financial statements.

(2 marks)

Continued...

(Total: 25 marks)

QUESTION 4

PART A

Janna is an audit associate working with her audit team on the audit for Lion Berhad. One of the phases in an audit is assessing risk and establishing materiality, where Janna and her team are required to make a preliminary assessment of the company's business risks and determine its materiality. Janna discovered that all non-current asset items in the Statement of Financial Positions are valued at thousands of Ringgit Malaysia (RM); thus, considered, all the non-current assets items are material.

Required

(a) Based on your opinion, is Janna's judgment in determining the materiality level of non-current assets items correct? Why? Provide a reason for your answer.

(5 marks)

(b) Identify **THREE (3)** areas the auditor may focus on when assessing an audit risk.

(6 marks)

(c) What is an audit risk? Explain the relationship between audit risk and materiality.

(4 marks)

(d) If the auditor found the control risk and inherent risk in the company are high, what would be the effect of the detection risk?

(2 marks)

PART B

Salmah is one of the staff working at Movem Berhad. She was informed that the company had appointed R&R Associates, headed by Mr. Tim, to audit the company's financial statement for the year ended 31 December 2022.

Mr. Ali, Salmah's superior, has assigned her to provide all relevant information and findings related to the internal control test, which she has previously tested to Mr. Tim and his audit team members, who will be coming to their company in two weeks.

Required

(a) Identify the position of the person below in Movem Berhad:

1. Salmah
2. Mr Tim

(2 marks)

Continued...

(b) Based on your answer in (a), explain the job scope for:

1. Salmah
2. Mr Tim

(6 marks)

(Total: 25 marks)

End of Paper